

January 2003

# Major Management Challenges and Program Risks

## Department of Housing and Urban Development



## A Glance at the Agency Covered in This Report

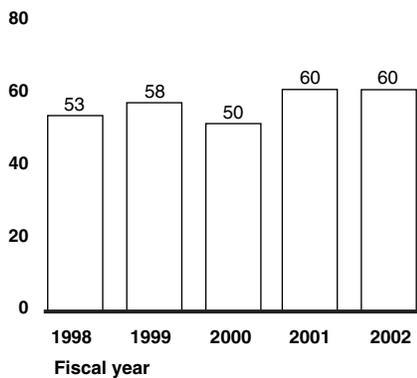
The Department of Housing and Urban Development's complex and diverse mission is to promote

- adequate and affordable housing by making homeownership more accessible and less expensive;
- the development of affordable and decent rental housing for low-income families;
- economic opportunity by supporting community and economic development efforts, including strengthening and expanding community partnerships, providing capital to create and retain jobs, and improving economic conditions in distressed communities; and
- a suitable living environment, free from discrimination, by enforcing fair housing laws and educating lenders, landlords, and tenants in complying with the laws.

## The Department of Housing and Urban Development's Budgetary and Staff Resources

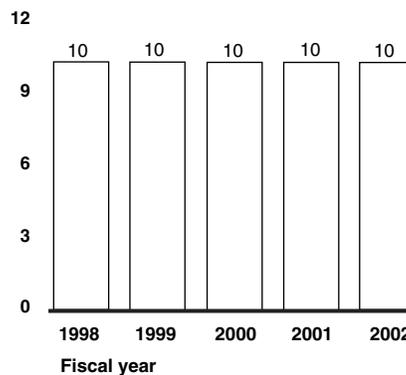
### Budgetary Resources<sup>a, b</sup>

Dollars in billions



### Staff Resources<sup>b</sup>

FTEs in thousands



Source: Budget of the United States Government.

<sup>a</sup> Budgetary resources include new budget authority (BA) and unobligated balances of previous BA. Budgetary resources exclude unobligated balances from the FHA-Mutual Mortgage and Cooperative Housing Insurance Funds, FHA-General and Special Risk Insurance Funds, and Guarantees of Mortgage-Backed Securities Liquidating Accounts.

<sup>b</sup> Budget and staff resources are actuals for FY 1998-2001. FY 2002 are estimates from the FY 2003 budget, which are the latest publicly available figures on a consistent basis as of January 2003. Actuals for FY 2002 will be contained in the President's FY 2004 budget to be released in February 2003.

## This Series

This report is part of a special GAO series, first issued in 1999 and updated in 2001, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. The 2003 Performance and Accountability Series contains separate reports covering each cabinet department, most major independent agencies, and the U.S. Postal Service. The series also includes a governmentwide perspective on transforming the way the government does business in order to meet 21st century challenges and address long-term fiscal needs. The companion 2003 *High-Risk Series: An Update* identifies areas at high risk due to either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness. A list of all of the reports in this series is included at the end of this report.



Highlights of [GAO-03-103](#), a report to Congress included as part of GAO's Performance and Accountability Series

## Department of Housing and Urban Development

### Why GAO Did This Report

In its 2001 performance and accountability report on the U.S. Department of Housing and Urban Development (HUD), GAO identified two of HUD's major program areas—single-family mortgage insurance and rental housing assistance—as high risk. GAO also reported that HUD faced major management challenges concerning its human capital and programmatic and financial management information systems. The information GAO presents in this report is intended to help to sustain congressional attention and a departmental focus on continuing to make progress in addressing these challenges and ultimately overcoming them.

### What Remains to Be Done

HUD needs to

- improve management and oversight of its single-family mortgage insurance programs, to reduce risk of losses from loan defaults or fraud;
- ensure that its rental housing assistance programs operate effectively and efficiently, specifically ensuring that subsidy payments are accurate, subsidy recipients are eligible, assisted housing meets quality standards, and contractors perform as expected; and
- resolve issues concerning its programmatic and financial management information systems, human capital, and acquisitions management.

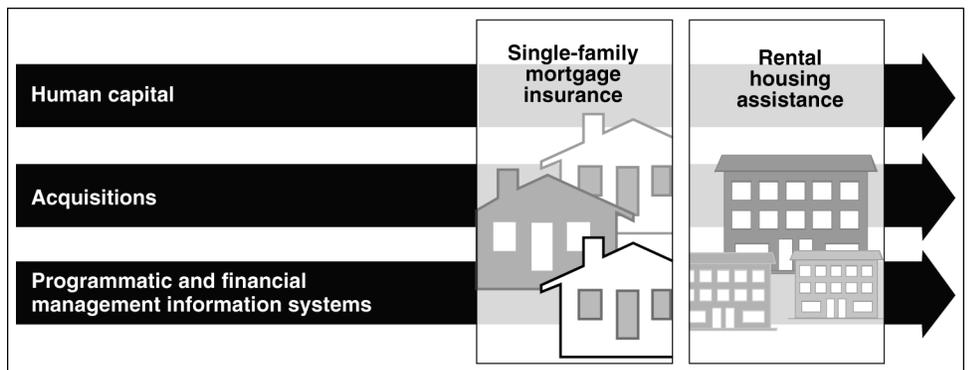
[www.gao.gov/cgi-bin/getrpt?GAO-03-103](http://www.gao.gov/cgi-bin/getrpt?GAO-03-103).

To view the full report, click on the link above. For more information, contact Thomas J. McCool at (202) 512-8678 or [mccoolt@gao.gov](mailto:mccoolt@gao.gov).

### What GAO Found

HUD has made progress since January 2001 in addressing identified weaknesses in its high-risk program areas and management challenges but significant challenges remain. GAO is maintaining the department's single-family mortgage insurance and rental housing assistance program areas as high risk at this time. In the single-family mortgage insurance program, HUD has, among other things, developed new processes to review lenders and appraisers and implemented new incentives to improve the performance of its property disposition contractors. However, many of HUD's strategies for resolving problems in its high-risk program areas represent new initiatives in early stages of implementation, and evidence shows that significant problems remain. In its rental housing assistance programs, HUD estimates that rental subsidy overpayments—some \$2 billion out of \$19 billion in assistance in fiscal year 2000—are greater than previously estimated; implementation of a new assessment system for public housing agencies has been delayed; and correcting housing quality violations remains problematic. HUD is in the early stages of developing a strategic human capital planning approach and has not yet developed a comprehensive plan to resolve serious, long-standing programmatic and financial management information system deficiencies. GAO is retaining human capital and programmatic and financial management information systems as major management challenges. In addition, GAO is designating acquisitions management as a new major management challenge because of HUD's extensive and growing reliance on contractors, as well as identified weaknesses in monitoring and oversight of these contractors, managing and training its acquisitions workforce, and developing information systems that support contracting. These management challenges cut across HUD's program areas and contribute to GAO's high-risk designations.

HUD's High-Risk Program Areas and Management Challenges



Source: GAO.

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United States General Accounting Office  
Washington, D.C. 20548

January 2003

The President of the Senate  
The Speaker of the House of Representatives

This report addresses the major management challenges and program risks facing the U.S. Department of Housing and Urban Development (HUD) as it works to carry out its multiple and highly diverse missions. The report discusses the actions that HUD has taken and that are under way to address the challenges GAO identified in its Performance and Accountability Series 2 years ago. Also, GAO summarizes the challenges that remain, new ones that have emerged, and further actions that GAO believes are needed.

This analysis should help the new Congress and the administration carry out their oversight responsibilities for HUD, helping to improve government for the benefit of the American people. For additional information about this report, please contact Thomas J. McCool, Managing Director, Financial Markets and Community Investment, at (202) 512-8678 or at [mccoolt@gao.gov](mailto:mccoolt@gao.gov).

David M. Walker  
Comptroller General  
of the United States

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# Major Performance and Accountability Challenges

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The Congress has long been concerned with management problems at HUD. Over time, these have included an inefficient organizational structure, inadequate human capital planning, and outdated and inefficient information technology, as well as overlapping, complicated, and poorly designed programs. At one time, the Congress was considering dismantling HUD and transferring its programs to other agencies.<sup>1</sup> In recent years, HUD has undertaken various management reform initiatives to address these deficiencies, a task made difficult by the fact that the agency has a complex and diverse mission and must work through thousands of intermediaries to deliver its programs. As we have reported in recent years, HUD has made progress toward overhauling its operations. The current leadership faces the challenge of sustaining this progress in order to achieve the department's goal of becoming a high-performing agency. As part of efforts to address management challenges across the government, the Office of Management and Budget presented the President's Management Agenda for fiscal year 2002. In addition to the governmentwide initiatives, the agenda includes agency-specific initiatives to address the most significant management challenges. For HUD, the agenda includes initiatives related in part to the department's high-risk areas and management challenges identified by GAO: improving the performance of housing intermediaries, reducing overpaid rent subsidies, improving risk management at the Federal Housing Administration (FHA), and strengthening program controls.<sup>2</sup>

In our January 2001 report on HUD's management challenges and program risks,<sup>3</sup> we reported that HUD had made credible progress in addressing some of its long-standing management deficiencies. For example, HUD had completed its first physical inspections and financial assessments of the inventory of assisted and insured multifamily housing properties to assess the condition of these properties; taken steps to develop an information

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<sup>1</sup>U.S. General Accounting Office, *Housing and Urban Development: Potential Implications of Legislation Proposing to Dismantle HUD*, [GAO/RCED-97-36](#) (Washington, D.C.: Feb. 21, 1997).

<sup>2</sup>The last initiative, reducing meaningless compliance burdens, concerns the consolidated plan process in HUD's Office of Community Planning and Development. This report does not discuss this initiative because it does not relate to HUD's program areas that we consider at high risk or to management challenges we have identified.

<sup>3</sup>U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Housing and Urban Development*, [GAO-01-248](#) (Washington, D.C.: January 2001).

technology (IT) investment management process to improve and strengthen the selection, control, and evaluation of IT projects; and piloted a new resource estimation and allocation process to determine appropriate staffing levels. Recognizing the progress HUD had made, and consistent with our criteria for determining high risk, we redefined and reduced the number of HUD programs deemed to be high risk. Specifically, because of the actions HUD took to improve management controls, we concluded that community planning and development programs were no longer at high risk. However, because significant weaknesses persisted in two major program areas—single-family mortgage insurance programs and rental housing assistance programs—we retained their high-risk designations. Additionally, we identified as major management challenges HUD’s (1) programmatic and financial management information systems and (2) human capital management.

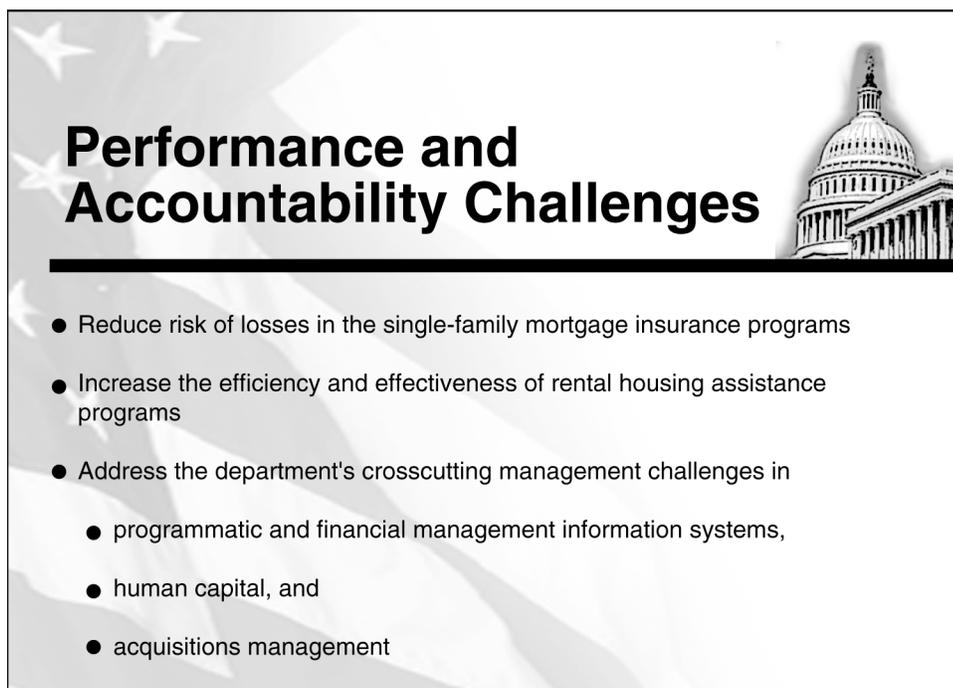
Since January 2001, HUD has made efforts to address weaknesses in its high-risk and management challenge areas. In the single-family mortgage insurance programs, HUD has developed new processes to review lenders and appraisers and has implemented new incentives to improve the performance of its single-family property disposition contractors. HUD has also initiated a new effort to reduce rental housing assistance overpayments. To improve its programmatic and financial management information systems, HUD has deployed a new general ledger, improved interfaces with legacy systems, and developed an IT investment management program and a project management training program.<sup>4</sup> To help address its human capital weaknesses, HUD has completed its resource estimation and allocation process for determining appropriate staffing levels and has begun a work measurement process to further refine its resource allocation.

While we recognize HUD’s progress, serious weaknesses remain in HUD’s high-risk programs, and some of its strategies for addressing these problems are new initiatives that are in the early stages of implementation. Consequently, we are maintaining the department’s single-family mortgage insurance and rental housing assistance program areas as high risk at this time. For example, the single-family mortgage insurance programs remain a high-risk area because of continued weaknesses in the mortgage insurance process, evidence of fraud, and the variety of management

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<sup>4</sup>A legacy system generally refers to an old or outdated computer system that remains in use even after more modern technology has been installed.

challenges HUD faces in implementing corrective actions. Rental housing assistance also remains a high-risk area because of evidence that overpayments due to errors in determining rental assistance amounts are greater than previously estimated, challenges in ensuring compliance with housing quality standards, and delays in implementing a new assessment system for public housing authorities. Programmatic and financial management information systems and human capital are still major management challenges. In addition, we are designating acquisitions management as a new management challenge because of the agency's extensive and growing reliance on contractors and third parties and deficiencies in HUD's contractor monitoring and oversight, management of the acquisitions workforce, and information systems that support acquisitions.



**Performance and  
Accountability Challenges**

- Reduce risk of losses in the single-family mortgage insurance programs
- Increase the efficiency and effectiveness of rental housing assistance programs
- Address the department's crosscutting management challenges in
  - programmatic and financial management information systems,
  - human capital, and
  - acquisitions management

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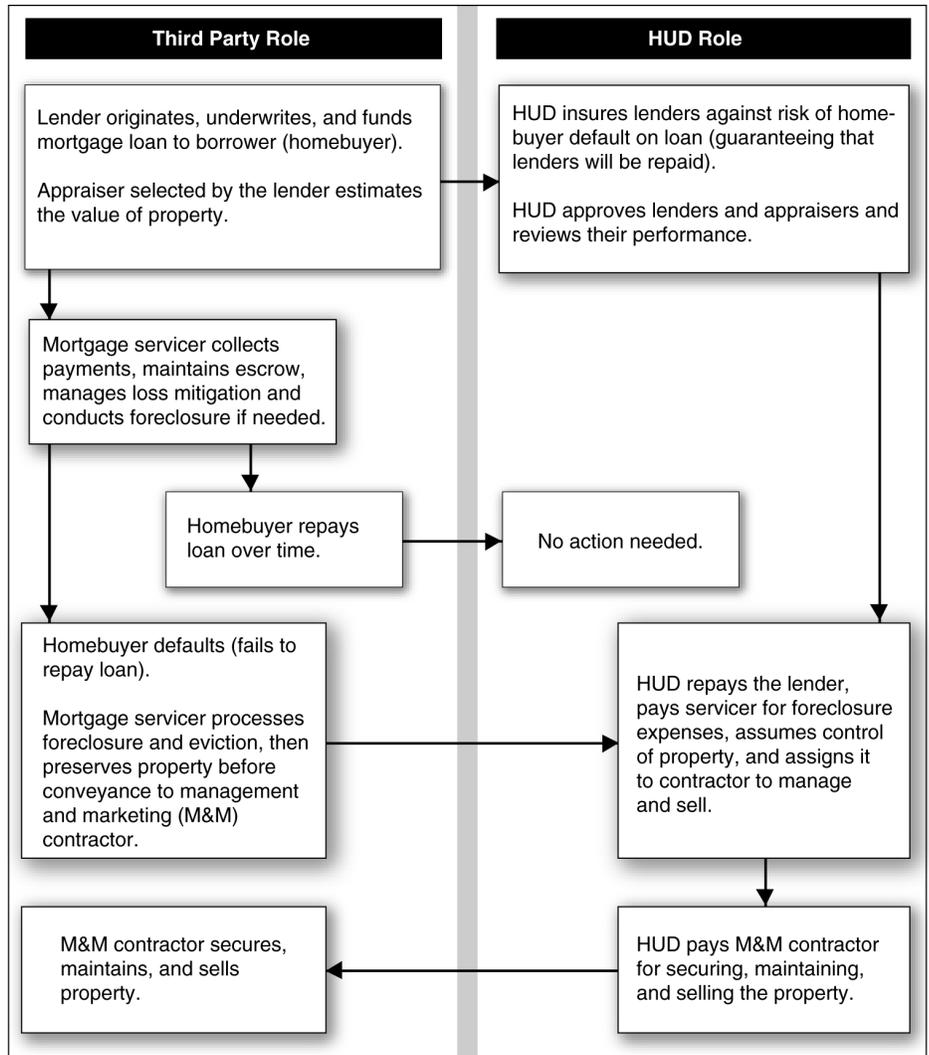
## Reduce the Risk of Losses in HUD's Single- Family Mortgage Insurance Programs

HUD's FHA administers programs aimed at making mortgage financing more accessible to homebuyers, particularly low-income and first-time homebuyers. To expand homeownership, FHA insures private lenders against nearly all losses on mortgages that finance single-family homes, managing about \$500 billion in insured single-family mortgages.<sup>5</sup> FHA's insurance programs are dependent on the actions of third parties—private lenders who make the loans, appraisers contracted by those lenders, and contractors who manage the property that FHA acquires when the borrower defaults on the mortgage (fig. 1). While FHA insures lenders against nearly all losses resulting from foreclosed loans, it relies on the lenders to underwrite the loans and determine borrowers' eligibility for FHA mortgage insurance. The loan amount that FHA can insure is based, in part, on the appraised value of the home. The appraisal (1) determines the property's eligibility for mortgage insurance on the basis of its condition and location and (2) estimates the value of the property for mortgage insurance purposes. The appraiser is required to identify any visible deficiencies impairing the safety, sanitation, structural soundness, and continued marketability of the property and to assess the property's compliance with FHA's other minimum property standards. Lenders making FHA-insured loans are required to select appraisers from FHA's roster of state-licensed or -certified appraisers.

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<sup>5</sup>This is the value of single-family insurance-in-force as of September 30, 2001. FHA endorsed 1,067,000 single-family mortgage loans through about 7,500 approved lenders in fiscal year 2001, including loans for refinancing.

Figure 1: HUD and Third-Party Roles in FHA's Single-Family Mortgage Insurance Process



Source: GAO.

Because of weaknesses in FHA's processes and oversight, ineligible buyers sometimes fraudulently obtain loans or foreclosed properties, or loans are made on properties actually worth less than the loan amount, increasing the risk of default and losses. Every year, thousands of borrowers default on their FHA insured single-family mortgage loans. When borrowers default, lenders may foreclose on the properties for which the loans were secured, file claims against the FHA insurance program, and convey the properties to HUD. HUD contracts with management and marketing contractors to secure, maintain, and sell the foreclosed properties. Further, if the properties are not properly secured and maintained in a timely fashion, their condition can deteriorate, resulting in lower sales prices and limiting FHA's ability to recover its costs.

In January 2001 we reported that HUD and FHA had made considerable progress in streamlining operations and making FHA's single-family mortgage insurance programs more efficient.<sup>6</sup> However, we also reported that significant deficiencies remained and that because of the value of the insurance programs, the variety of management challenges FHA faces, and FHA's potential liability under these programs, FHA's single-family mortgage insurance programs maintained their high-risk designation. On the basis of our work and that of others, we said that HUD needed to

- further improve the management and monitoring of lenders, appraisers, and property disposition contractors,
- ensure that sufficient staff are available and have the skills needed to carry out FHA's mission, and
- improve programmatic and financial management information systems.

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**Need to Improve the  
Management and  
Monitoring of Lenders,  
Appraisers, and Property  
Disposition Contractors**

Since 2001, HUD has taken steps to improve its single-family mortgage insurance operations, including overseeing lenders and appraisers. As part of the President's Management Agenda, HUD is working to reduce the risk of loss to FHA's insurance fund by holding lenders accountable for the performance of brokers and appraisers and is including plans to eliminate most, if not all, falsely inflated appraisals by 2004, taking strong action

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<sup>6</sup>[GAO-01-248](#).

when fraud is found in the program. More specifically, the following steps have been taken:

- HUD has developed the Lender Assessment Subsystem (LASS), a Web-based system that receives; collects; assesses; and scores financial, compliance, and performance-related information from 7,500 FHA-approved lenders to help HUD identify and measure the risk posed by lenders to the insured portfolio. LASS replaces a manual process and allows lenders to electronically submit annual audited financial statements and program compliance information. HUD issued regulations on August 15, 2002, which according to the department, requires that lenders use LASS to submit their annual financial and compliance data, beginning with those lenders having a September 2002 fiscal year end. These first submissions were due to HUD December 31, 2002.
- In response to our recommendations,<sup>7</sup> HUD is revising the Credit Watch Program's regulations to cover lenders that underwrite FHA-insured loans and have excessive default and claim rates, as well as lenders that originate such loans.<sup>8</sup> In addition, the department is developing procedures and enhancing FHA's management information systems to identify and select for technical reviews loans and lenders that pose a high risk of financial loss to FHA.
- HUD has initiated the Single Family Appraiser Subsystem (SASS) to review the quality of real estate appraisals. Among other things, HUD has assigned approved appraisers to perform independent reviews of FHA appraisals, and has had its Real Estate Assessment Center (REAC) administer FHA appraiser testing. However, according to HUD, the process as originally designed proved to be an inefficient means for identifying poorly performing appraisers. The process resulted in a high volume of automated reviews that identified only minor problems and did not identify patterns of problems with appraisers. In fiscal year 2001, SASS cost HUD about \$20 million and resulted in the removal of 23

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<sup>7</sup>U.S. General Accounting Office, *Single-Family Housing: Stronger Oversight of FHA Lenders Could Reduce HUD's Insurance Risk*, [GAO/RCED-00-112](#) (Washington, D.C.: Apr. 28, 2000).

<sup>8</sup>Credit Watch is a program that enables FHA to analyze trends in claim and default data by lender and impose sanctions on problem lenders, including terminating their loan origination authority.

appraisers. To address these concerns, HUD revised the process to include focusing on appraisers rather than appraisals and moving the function from REAC to the Office of Single Family Housing where staff would have the expertise to review appraiser performance. Appraiser reviews are based on known risk factors, such as an appraiser's association with mortgages with high default and claim rates, rehabilitation loans, and foreclosed properties. According to HUD, the new targeted system resulted in the removal of 97 appraisers in fiscal year 2002 at a cost of about \$300,000.

- Based on our recommendation,<sup>9</sup> HUD developed incentives and penalties to encourage the management and marketing contractors to reduce the number of properties that are in the inventory longer than 6 months. For example, the department now includes the selling of aged properties in its performance evaluation of contractors. Generally, the less time a property is in HUD's inventory, the less cost HUD bears. HUD told us that the percentage of aged inventory decreased from 8.4 percent to 6 percent between fiscal year 2001 and fiscal year 2002.
- As part of the President's Management Agenda, HUD is working to improve FHA's risk management and to increase amounts FHA recovers from defaulted loans and foreclosed properties. Specifically, in fiscal year 2002 HUD initiated a demonstration program using mortgage loan purchase and sale authority granted under the National Housing Act, as amended,<sup>10</sup> known as the 601 Accelerated Claim Disposition Program. The intent of the demonstration project is to reduce foreclosure claim losses by paying claims on loans considered most at risk of foreclosure early in the default cycle and selling them to private sector joint venture partners. On October 31, 2002, HUD awarded Salomon Brothers Realty Corporation a 70 percent equity interest in a joint venture to acquire, service, and dispose of 5,100 nonperforming loans. According to HUD, these partnerships will help to restructure mortgage notes to improve performance, accelerate the claims process, and increase recoveries to the FHA fund and the department will evaluate this demonstration

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<sup>9</sup>U.S. General Accounting Office, *Single-Family Housing: Stronger Measures Needed to Encourage Better Performance by Management and Marketing Contractors*, GAO/RCED-00-117 (Washington, D.C.: May 12, 2000).

<sup>10</sup>Section 204 of the National Housing Act, as amended by section 601 of the HUD Appropriations Act of Fiscal Year 1999.

project as it develops plans for subsequent asset disposition demonstrations and permanent program implementation.

- In response to recommendations we made in June 1999 concerning problems with the 203(k) Home Rehabilitation Loan Program, since January 2001 HUD has taken actions to address weaknesses in insuring home renovation loans.<sup>11</sup> HUD developed specific procedures for identifying high-risk 203(k) lenders and targeting them for annual monitoring, issued guidance that set new standards and procedures for consultants' participation in the 203(k) program, and issued guidance that set uniform standards for nonprofit agency participation and re-certification in all FHA activities. HUD issued regulations during 2002 to remove nonperforming 203(k) consultants and nonperforming nonprofit organizations from the list of approved participants.

Although these improvements are under way, GAO and HUD's Inspector General have continued to identify problem areas that increase FHA's risk in its single-family mortgage insurance programs. More specifically, the problem areas are as follows:

- In its latest semiannual report, HUD's Inspector General stated that fraud in the origination of mortgages for single-family properties continued to be the most pervasive problem uncovered by its investigations.<sup>12</sup> The Inspector General noted that a joint investigation with the Federal Bureau of Investigation uncovered a 20-person property-flipping scheme in Chicago, Illinois, that resulted in 21 indictments and convictions and 12 jail sentences. The report added that the use of fraudulent documentation to qualify borrowers for FHA-insured mortgages had led to criminal indictments and convictions in several other communities.
- LASS is not yet calculating key financial indicators to determine lenders' soundness and risk exposure as planned. Implementation of the system has been delayed because the Office of Single Family Housing does not yet have the technical capacity to support the function. HUD is working

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<sup>11</sup>U.S. General Accounting Office, *Homeownership: Problems Persist with HUD's 203(k) Home Rehabilitation Loan Program*, [GAO/RCED-99-124](#) (Washington, D.C.: June 14, 1999).

<sup>12</sup>U.S. Department of Housing and Urban Development, Office of Inspector General, *Semi-annual Report to the Congress for the period ending September 30, 2002* (Washington, D.C.).

to develop the electronic environment within the Office of Single Family Housing to support the LASS function. HUD reports that the LASS will be modified during fiscal year 2003.

- In June 2001, the Inspector General reported that HUD's Philadelphia Homeownership Center needed to strengthen its monitoring of management and marketing contractors and its existing follow-up procedures to ensure that significant and recurring performance deficiencies were reported and more closely monitored and tracked.<sup>13</sup> As a result of these deficiencies, contractor performance problems were not corrected and subjected HUD to the higher risks associated with poor property conditions. According to HUD, it is taking corrective actions to address the Inspector General's concerns, including using a new performance evaluation tool and taking action against one contractor. HUD's reviews have indicated the need to better incorporate the results of property inspections in assessments of contractor performance, and the department is exploring options to use this information more effectively.
- In September 2001, we testified that the 203(k) program requires continued management attention and further improvements in oversight.<sup>14</sup> We had recommended that HUD improve its process for identifying underwriting violations, notifying lenders of violations, and imposing penalties. HUD agreed that lenders with poor underwriting practices should be targeted for enforcement actions and is in the process of hiring a contractor to assess the results of its desk reviews of 203(k) lenders and develop criteria for evaluating the risks associated with these lenders.

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<sup>13</sup>U.S. Department of Housing and Urban Development, Office of Inspector General, *Audit Memorandum: Philadelphia Homeownership Center Single-Family Disposition Activities*, 2001-PH-0803 (Washington, D.C.: June 2001). Responsibility for FHA's single-family insurance loan processing and property management is assigned to four homeownership centers located in Atlanta, Denver, Philadelphia, and Santa Ana (California).

<sup>14</sup>U.S. General Accounting Office, *Homeownership: Problems Persist with HUD's 203(k) Home Rehabilitation Loan Program*, [GAO-01-1124T](#) (Washington, D.C.: Sept. 10, 2001).

- In April 2002,<sup>15</sup> we reported that FHA's foreclosure process could be improved if FHA adopted a process more like that used by other entities to reduce the time properties were not actively managed. With a revised process, FHA could better ensure that properties did not deteriorate and could recoup more of its losses when the house was sold. We reported that FHA's foreclosure procedures (1) prevented the timely initiation of critical property maintenance and marketing of the kind practiced by the other organizations, (2) could delay conveyance to FHA's management and marketing contractors because of the time-consuming procedures necessary to perform maintenance that exceeded established cost ceilings, and (3) resulted in disputes between FHA servicers and management and marketing contractors after the property was conveyed. We recommended that HUD establish unified property custody—a method in which a single entity is responsible for custody of a property after foreclosure through the sale to a new homeowner—as a priority for FHA and that HUD determine the method for unified custody that best ensures FHA borrowers continuing benefits from loss mitigation and homeowner protections under state and federal laws, provides appropriate incentives for limiting the time and expense of acquiring and selling properties, and ensures that properties are maintained to the benefit of the FHA insurance fund and communities. HUD agreed with these recommendations and has considered proposals to streamline FHA's foreclosure procedures, including issuing updated guidance and policy to address the title approval process. However, HUD has not revised its approach for accepting properties after foreclosure as recommended due to concerns about the potential negative impact on former homeowners and tenants and because statutory authority would have to be amended, according to HUD. We continue to believe that unified property custody would provide the most effective means for acquiring and selling FHA foreclosed properties and, as we stated in our April report, if this requires additional statutory authority, the HUD Secretary should seek it.

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Ensure Sufficient Staff with  
Needed Skills

HUD has substantially reorganized its single-family function in recent years, reducing the program's staffing levels and significantly changing the nature of the jobs performed by HUD's single-family staff. This situation

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<sup>15</sup>U.S. General Accounting Office, *Single-Family Housing: Opportunities to Improve Federal Foreclosure and Property Sale Processes*, GAO-02-305 (Washington, D.C.: Apr. 17, 2002).

has presented HUD with a continuing challenge to ensure that it has adequate staff with the right skills to perform their jobs effectively. We have found that staffing problems and skill imbalances have contributed to weaknesses in the single-family mortgage insurance programs.

For example, we reported in July 2001 that while HUD's four homeownership centers had improved their services, staffing imbalances had hampered the centers' operations.<sup>16</sup> While HUD envisioned leaving about a third of the centers' staff in field offices, nearly half remained in 71 field offices across the country. In addition, the deployment of staff across the centers was not consistent with their workload. As a result, all four centers were having difficulty supervising and making effective use of the staff in field offices, and the Philadelphia center, which had the largest workload, had fewer staff than two of the other centers. These imbalances existed because HUD had assigned staff to the centers without performing a systematic workload analysis and did not require staff to relocate from the field to the centers as workloads shifted. Furthermore, as the centers struggled to use their staff effectively, new initiatives, such as fraud prevention efforts, have increased the centers' workload. To make more effective use of their staff, the centers would like to eventually move many field office positions to the centers as existing field staff members leave or retire. According to HUD, the homeownership centers are using the department's recently completed resource studies and other workload information to adjust staffing plans at the centers.

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<sup>16</sup>U.S. General Accounting Office, *Single-Family Housing: Better Strategic Human Capital Management Needed at HUD's Homeownership Centers*, GAO-01-590 (Washington, D.C.: July 26, 2001).

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Improve Programmatic and  
Financial Management  
Information Systems

As we reported in October 2001, FHA's single-family information systems do not adequately support the centers' efforts to oversee lenders and contractors.<sup>17</sup> Given the multibillion-dollar insurance risk that FHA assumes annually, it is critical that the information systems help the agency carry out its responsibilities efficiently and effectively. FHA's homeownership centers use more than 20 different information systems to oversee the work of lenders and contractors, and homeownership center staff have developed specialized databases to improve their ability to meet their responsibilities. As a result, center staff must collect information from many different sources to identify high-risk lenders for review and to identify and investigate potential fraud cases. This situation creates a greater risk of error and increases the likelihood that these problems will go unnoticed. In addition, FHA's single-family information systems do not readily provide information that the centers need to monitor the performance of management and marketing contractors. For example, the homeownership centers' systems do not generate the reports needed to monitor these contractors' sale of properties under special programs that allow police officers and teachers to purchase HUD-owned homes in certain neighborhoods at a discount. HUD's Inspector General identified evidence of potential fraud in these programs, causing HUD to suspend the programs for 120 days.<sup>18</sup> According to HUD, FHA will undertake a new single-family integration project in 2003 to re-engineer and integrate systems to address data needs of staff and modernize its technical environment. The project will take several years to complete.

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<sup>17</sup>U.S. General Accounting Office, *Single-Family Housing: Current Information Systems Do Not Support the Business Processes at HUD's Homeownership Centers*, [GAO-02-44](#) (Washington, D.C.: Oct. 24, 2001).

<sup>18</sup>U.S. Department of Housing and Urban Development, Office of Inspector General, *Review of Officer/Teacher Next Door Program*, 2002-DE-0802 (Denver, CO: Mar. 12, 2002).

In the audit of FHA's fiscal year 2001 financial statements,<sup>19</sup> the independent auditors reported a material weakness related to the financial management systems<sup>20</sup>—that FHA's information systems need to more effectively support its business processes. According to the audit report, FHA is still conducting its day-to-day business with legacy systems, which results in staff manually processing and analyzing some financial transactions. The report specifically noted that key systems, including the Single Family Acquired Asset Management System and the Single Family Mortgage Notes System, are maintained in local databases that are not integrated with FHA financial management processes. This lack of integration increases the level of manual processing needed and reduces both the overall reliability of data and the efficiency of FHA personnel. Because of this lack of integration, FHA is unable to manage financial transactions in accordance with the Federal Financial Management Improvement Act (FFMIA). FHA has taken steps to begin addressing these problems, but the solutions are long term. For example, FHA implemented a new general ledger on October 1, 2002, and plans to develop an integrated financial management system over a 5-year period.

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## Increase Efficiency and Effectiveness of Rental Housing Assistance Programs

HUD encourages the development of affordable rental housing through a wide range of incentives and assistance. Specifically, it provides (1) mortgage insurance through FHA for the construction and rehabilitation of multifamily developments; (2) grants for the development of housing for the elderly, persons with disabilities, and public housing; (3) project-based rental assistance to owners of insured and uninsured multifamily projects; (4) operating subsidies to public housing authorities to help finance the operations and maintenance costs of housing projects; and (5) tenant-based vouchers for eligible households to use in securing privately-owned housing. HUD is responsible for ensuring that the insured and assisted properties remain in good physical and financial condition, and that

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<sup>19</sup>To complete the FHA audit, HUD's Inspector General contracted with the independent certified public accounting firm of KPMG. Department of Housing and Urban Development, Office of Inspector General, *Federal Housing Administration Audit of Financial Statements Fiscal Years 2001 and 2000*, 2002-FO-0002 (Washington, D.C.: Feb. 22, 2002).

<sup>20</sup>A material weakness is a condition in which the design of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material to the financial statements, may occur and not be detected promptly by employees in the normal course of performing their duties.

households receiving rental assistance meet eligibility requirements and receive the proper amount of assistance.

As it does in its single-family programs, HUD relies extensively on third parties to carry out the rental housing assistance programs, including public housing authorities, state housing finance agencies, lenders, appraisers, landlords and property management contractors (see table 1). HUD, through FHA, has about \$55 billion in insured multifamily mortgages-in-force and manages about \$7 billion in capital grants for housing for the elderly and persons with disabilities. HUD's rental housing assistance programs are administered by about 4,500 housing agencies<sup>21</sup> as well as under contracts covering about 22,000 privately owned properties.<sup>22</sup> In fiscal year 2001, HUD provided about \$19 billion in rental subsidies to make housing affordable for an estimated 5 million households. Despite the magnitude of the assistance it provides, HUD is able to serve fewer than half of those who are eligible for assisted housing. Ensuring that proper subsidies are paid is necessary to maximize the number of families that can be served.

**Table 1: HUD Programs That Support Affordable Rental Housing**

Program	What third party participants do	What HUD does
Multifamily Mortgage Insurance: about \$55 billion for about 14,700 mortgages; <sup>a</sup> foreclosed property inventory of about \$750 million, with estimated annual expenditures to manage and maintain of about \$214 million in FY 2001; about \$2.2 billion in mortgage notes being serviced.	<ul style="list-style-type: none"> <li>• Lender loans money to developer.</li> <li>• Developer constructs, purchases, or rehabilitates affordable multifamily housing.</li> <li>• If borrower defaults on loan,</li> <li>• lender forecloses on property or conveys note to HUD, and</li> <li>• lender conveys property to HUD for disposition.</li> </ul>	<ul style="list-style-type: none"> <li>• Insures lenders against risk of developer defaulting on loan.</li> <li>• Inspects construction.</li> <li>• Pays claim to lender.</li> <li>• Services the note to restore to financial soundness or forecloses.</li> <li>• Assigns property to property management contractor to maintain until sold.</li> </ul>

<sup>21</sup>Housing agencies may administer public housing or Section 8 tenant-based assistance (housing vouchers) or both.

<sup>22</sup>The assistance provided under these contracts is called Section 8 project-based assistance.

**Major Performance and Accountability Challenges**

*(Continued From Previous Page)*

<b>Program</b>	<b>What third party participants do</b>	<b>What HUD does</b>
Housing for the Elderly/Disabled (Section 202/811): funding commitments of about \$800 million per year as of the end of fiscal year 2001, with about \$4 billion in unexpended obligated funds, about \$2.8 billion in unobligated, unexpended balances; about \$7.8 billion in remaining balances from direct loans under the pre-1992 program.	<ul style="list-style-type: none"> <li>• Sponsor applies for grant for construction or rehabilitation.</li> <li>• Owner constructs project.</li> <li>• Inspectors monitor progress of construction.</li> <li>• Sponsor/owner must comply with use agreements.</li> </ul>	<ul style="list-style-type: none"> <li>• Reviews and approves grant.</li> <li>• Inspects throughout construction and contracts with inspectors for assistance.</li> <li>• Monitors throughout term of use agreement.</li> </ul>
Section 8 Project-based Rental Assistance (administered by HUD staff and Section 8 contract administrators): work directly with about 22,000 property owners and agents; about \$7 billion spent on 1.3 million units in fiscal year 2001.	<ul style="list-style-type: none"> <li>• Landlord/property manager determines eligibility of applicants to reside in assisted units.</li> <li>• Landlord/property manager rents units to eligible low-income tenants (including elderly or handicapped tenants) who pay rent equal to 30 percent of their income or a minimum flat rent of \$25.</li> <li>• Landlord/property manager verifies tenant income and submits request for payments to HUD or contract administrators.</li> <li>• Contract administrator manages Section 8 contracts, submits bills to HUD, and inspects properties.</li> </ul>	<ul style="list-style-type: none"> <li>• Pays landlord the difference between the fair market rent and the tenant's portion of the rent.</li> <li>• Inspects properties to ensure they meet HUD's housing quality standards.</li> <li>• Contracts with contract administrators to manage the Section 8 project-based program in some areas.</li> </ul>
Section 8 Housing Choice Voucher (administered by public housing agencies): about \$9.5 billion obligated in subsidies for about 1.97 million units in fiscal year 2001.	<ul style="list-style-type: none"> <li>• Public housing agencies allot vouchers to eligible households.</li> <li>• Eligible households find privately owned housing willing to accept vouchers.<sup>b</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Allots vouchers to local public housing agencies.</li> <li>• Pays public housing agencies the difference between the fair market rent and the tenant's portion of the rent.</li> <li>• Regulates and monitors PHA performance.</li> </ul>
Public Housing (administered by public housing agencies): in fiscal year 2001, about \$3.2 billion spent in operating subsidies and \$3 billion spent in modernization to support about 3,200 public housing agencies that manage about 1.2 million public housing units.	<ul style="list-style-type: none"> <li>• Public housing agencies rent housing units they own to eligible low-income tenants (including elderly and handicapped) for rent equal to 30 percent of their income (or a minimum rent up to \$50) or a flat rent.</li> </ul>	<ul style="list-style-type: none"> <li>• Pays public housing agencies to develop, maintain, and rehabilitate units.</li> <li>• Provides public housing agencies with funds to cover the difference between operating costs and the tenants' rent.</li> <li>• Inspects properties to ensure they meet uniform physical condition standards.</li> </ul>

Source: GAO and HUD.

Note: GAO presentation of HUD programs.

<sup>a</sup>Some of these loans are for health care facilities.

<sup>b</sup>In some markets, households with vouchers are unable to find eligible units at rates they can afford and are unable to use the vouchers.

In January 2001, we reported that HUD faced considerable management challenges in closing the gap between the number of households needing

assistance and those that receive it, as well as in ensuring that assisted housing complies with HUD standards. We noted that HUD’s rental housing programs were still high risk because of their size and complexity and because improving the management of these programs would allow HUD to provide assisted housing to more low-income households. More specifically, we said that HUD had not yet ensured that

- existing housing subsidies are received only by eligible households, and households receive no more than the amounts to which they are entitled;
- housing providers receiving assistance from HUD comply with HUD’s quality standards for housing that is decent, safe, sanitary, and in good repair; and
- its human capital management supported efforts to correct program weaknesses.

Reduce Overpayments and Errors in Determining Rental Assistance

Errors in determining rental assistance amounts can increase the government’s assistance payments, reduce the number of families who may be assisted, and result in ineligible families retaining subsidized units. In HUD’s consolidated financial statement audit reports since fiscal year 1995, HUD’s Inspector General has reported as a material internal control weakness that HUD needs to improve its efforts to ensure it is paying correct rental assistance. Table 2 presents the rental program expenditures and excess rental assistance HUD estimates it paid for fiscal years 1996 through 2001.

**Table 2: Estimated Excess Rental Assistance, Fiscal Years 1996–2001**

Dollars in millions

Fiscal year reported <sup>a</sup>	Estimated excess rental payments <sup>b</sup>	Program expenditures	Percentage of excess assistance
1996	\$538 <sup>c</sup>	\$19,257	2.8%
1997	\$804	\$18,069	4.4%
1998	\$857	\$18,600	4.6%
1999	\$935	\$18,606	5.0%
2000	\$617 <sup>d</sup>	\$18,883	3.3%
2001	\$2,013 <sup>e</sup>	\$18.883 <sup>f</sup>	10.7%

Source: HUD.

Note: HUD data reported in annual audited financial statements.

<sup>a</sup>The estimated excess rental assistance is reported in footnotes to HUD's annual consolidated financial statements for fiscal years ending September 30 of each year; however, the estimates are computed from data for the preceding calendar year.

<sup>b</sup>These estimates result from unreported tenant income, unless otherwise noted.

<sup>c</sup>In the audit of HUD's fiscal year 1996 consolidated financial statements, HUD's Inspector General concluded that the \$538 million estimate of excess rental assistance was understated because HUD did not include Supplemental Security Income (SSI) in the computer matching. In addition, the Inspector General expressed concern about the completeness of HUD's tenant databases. HUD reported to us that subsequent analysis shows that underreported SSI income had a nominal effect on the estimate of excess rental assistance.

<sup>d</sup>In the fiscal year 2000 financial statement audit, the Inspector General also reported that HUD completed a separate quality control review of rent determination errors made by public housing agencies, owners, and agents responsible for program administration. This study estimated about \$1.3 billion in overpayment errors or about 6.6 percent of total rental assistance. This methodology was incorporated in the analysis done for the fiscal year 2001 financial statement audit report that resulted in the higher error estimate. The \$617 million relates to unreported tenant income.

<sup>e</sup>The fiscal year 2001 estimated error increased because of a change in HUD's methodology for calculating rental assistance errors to more accurately capture the full extent of such errors. The new methodology includes an estimate of the amount of errors in rent determinations made by project owners/agents, as discussed below, which was not included in previous years' estimates.

<sup>f</sup>HUD reported results using fiscal year 2000 program expenditures.

To capture the full extent of errors made in rental assistance determinations, HUD has expanded the scope of its error measurement methodology since January 2001. The expanded methodology covers the three primary types of rental assistance program errors—(1) incorrect reporting of income by tenants;<sup>23</sup> (2) mistakes by public housing agencies, owners, and renting agents in calculating income and rent amounts; and (3) mistakes made by public housing agencies, owners, and renting agents in completing appropriate paperwork and billing HUD for rental assistance. The error measurement methodology used for fiscal year 2000 included the first two of the three primary types of rental assistance errors, and starting in 2003 HUD intends to measure and report on all three types of primary errors annually. As table 2 shows, HUD's latest estimate is that it paid a total of about \$2.013 billion in excess assistance as a result of tenants underreporting or failing to report their income and because of errors made by program administrators in calculating rent subsidies.

In 2001, HUD initiated the Rental Housing Integrity Improvement Project, which is designed to address the causes of the errors and improper

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<sup>23</sup>Until 2000, HUD's methodology focused on incorrect reporting of income by tenants by matching the income amount tenants reported to HUD with data obtained from the Internal Revenue Service and the Social Security Administration.

payments and ensure that only eligible people receive subsidies and that the subsidies are properly calculated. This initiative is also one of HUD's President's Management Agenda items. HUD's goal is to reduce the error rate by 50 percent by the end of 2005 by improving the way incomes are verified and reducing errors in calculating subsidies. Both the Office of Housing and the Office of Public and Indian Housing have designed program fact sheets for use by tenants, public housing agencies, owners, landlords/renting agents, and HUD staff that explain HUD's requirements for reporting income and determining subsidies. HUD is testing a process for automating the rent calculations, which will help to ensure that no program requirements are overlooked, and is also considering options to simplify the program rules. Finally, the Office of Housing and the Office of Public and Indian Housing have developed quality control programs and redeployed and trained staff to focus on reducing errors.

HUD's efforts to reduce rental assistance overpayments face significant challenges and the results may not be known for several years. For example, in order to identify unreported income before rental subsidies are provided, HUD is trying to gain access to the National Directory of New Hires,<sup>24</sup> maintained by the Department of Health and Human Services. However, because accessing this data will require legislation, HUD estimates that it may take two years or more to gain access to this database. In the interim, the Office of Public and Indian Housing is pursuing an initiative to use state wage data to verify income. According to HUD, one agreement was signed with the state of Texas in October 2002 and cooperative agreements are being discussed with five other states. Even with access to the National Directory of New Hires and sharing agreements with states, privacy concerns may limit the use of such data, particularly by private owners and lenders who calculate the rental assistance amounts.

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<sup>24</sup>The directory includes centralized sources of state wage, unemployment insurance, and new hires data for all 50 states.

HUD's Inspector General has reported that some of the information systems containing tenant data that is necessary to calculate rents and analyze rental assistance payments contain inaccurate or incomplete data that may affect the department's ability to reduce overpayments. The current income verification process uses two HUD data sources for tenant information—the Tenant Rental Assistance Certification System (TRACS) for Section 8 project-based renters and the Multifamily Tenant Characteristics System (MTCS) for public housing renters.<sup>25</sup> In a September 2000 report, HUD's Inspector General stated that TRACS contained inaccurate data that decreased the effectiveness of HUD's error calculation efforts.<sup>26</sup> In HUD's fiscal year 2001 consolidated financial statements audit report, the Inspector General stated that about 50 percent of the Section 8 contracts in TRACS contained inaccurate rent rates and that HUD lacked written procedures that specified when or by whom TRACS should be updated after a rent rate change.<sup>27</sup> The Inspector General recommended that HUD ensure that planned actions to upgrade TRACS are completed and that TRACS data are useful and cost-efficient. Otherwise, the department should discard TRACS and investigate alternative systems. According to HUD, it has developed a rent module in the Real Estate Management System, which tracks information on HUD's multifamily portfolio, to maintain rent data for the multifamily housing portfolio effective January 2003. The Inspector General also reported that, as of December 2001, approximately half of the housing authorities had not reported household data to MTCS. As of December 2002, 94 percent of public housing agencies are accessing MTCS, according to HUD.

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## Assure Housing Quality Standards

Since January 2001, HUD has continued to respond to our recommendations on its efforts to manage the quality of assisted and insured rental housing. HUD has undertaken initiatives to improve its oversight and ensure that housing providers receiving assistance comply

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<sup>25</sup>HUD reports that MTCS is now known as PIC-50058.

<sup>26</sup>U.S. Department of Housing and Urban Development, Office of Inspector General, *Housing Subsidy Payments: Office of Housing*, 00-KC-103-0002 (Kansas City, MO: Sept. 29, 2000).

<sup>27</sup>U.S. Department of Housing and Urban Development, Office of Inspector General, *Audit of U.S. Department of Housing and Urban Development Financial Statements for Fiscal Years 2001 and 2000*, 2002-FO-0003 (Washington, D.C.: Feb. 27, 2002).

with HUD's quality standards for housing that is decent, safe, sanitary, and in good repair. Specifically:

- Since January 2001, HUD has taken a number of steps to respond to recommendations we made in July 2000 concerning the reliability of inspection scores.<sup>28</sup> Since these actions were implemented, the percentage of inspections that failed to meet REAC's standards has continued to decrease,<sup>29</sup> demonstrating REAC's progress in ensuring the accuracy and reliability of its physical inspection scores. For example, according to data provided by HUD for fiscal year 2001, REAC staff accompanied contract inspectors on 1,616 inspections and found that less than 8.3 percent of the inspections did not meet REAC's standards, compared with 12 percent when we reported the problem in July 2000.
- In our June 2001 report on HUD's efforts to address physical problems at multifamily properties in substandard condition, we noted that HUD could not verify that repairs at substandard properties had been made.<sup>30</sup> In response to our recommendations, HUD has taken steps to ensure that owners of properties in substandard condition correct all physical deficiencies at their properties. For example, HUD hired a contractor to verify that repairs had been made at properties where the owners had certified that repairs were completed. HUD officials also noted that effective November 1, 2002, the Departmental Enforcement Center is required to meet directly with the owners of properties that receive low inspection scores and pursue specific steps to ensure the owner improves property conditions. If the owner does not make the necessary improvements, the center will take immediate enforcement action, which could include taking control of the property.

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<sup>28</sup>U.S. General Accounting Office, *HUD Housing Portfolios: HUD has Strengthened Physical Inspections but Needs to Resolve Concerns About their Reliability*, GAO/RCED-00-168 (Washington, D.C.: July 25, 2000).

<sup>29</sup>HUD's REAC is responsible for assessing whether properties in the agency's public and assisted multifamily housing programs comply with standards for safety, cleanliness, and good repair. Contractors certified by REAC inspect projects for compliance with HUD standards.

<sup>30</sup>U.S. General Accounting Office, *HUD Multifamily Housing: Improved Followup Needed to Ensure that Physical Problems are Corrected*, GAO-01-668 (Washington, D.C.: June 21, 2001).

- In our March 2002 report, we found that HUD was still testing and revising its new Public Housing Assessment System (PHAS), but had begun to use the results to designate certain housing agencies as “troubled” and to assign them to recovery centers to receive technical and other assistance to correct their problems.<sup>31</sup> Poor-quality units are one such problem. We reported that, as of December 2001, HUD had designated as troubled 21 of about 3,200 agencies that manage public housing units. Since that time, HUD has designated a total of 84 public housing agencies as troubled through September 2002.
- In December 1999, HUD implemented a new system assigning risk levels to public housing agencies. One component is an assessment of housing quality. HUD field offices use these risk assessments to plan their monitoring strategies and target their monitoring resources. In March 2002, we recommended that HUD revise its risk assessment system to automatically classify all troubled housing agencies as high risk, which was not previously being done. According to HUD, the system has been modified to make this classification, and the department held training sessions in June 2002 for field office staff on the modifications.
- HUD also relies on its Section 8 Management Assessment Program (SEMAP) to evaluate the performance of public housing agencies that administer Section 8 tenant-based rental assistance—including an evaluation of housing quality. Under the President’s Management Agenda, one of HUD’s goals is to use the program to continue improving its oversight capability and the performance of housing agencies that administer tenant-based Section 8 programs. According to HUD, SEMAP was revised in November 2001 to provide field offices with better assistance in implementing the program.

Although these are positive steps, some have not yet been finalized, and the impact of recent organizational realignments on HUD’s progress in monitoring and ensuring the quality of assisted and insured housing remains unclear. Further, our work and that of the HUD Inspector General indicates that ensuring compliance with housing quality standards remains a serious challenge. Following are examples of housing quality standards compliance challenges:

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<sup>31</sup>U.S. General Accounting Office, *Public Housing: New Assessment System Holds Potential for Evaluating Performance*, [GAO-02-282](#) (Washington, D.C.: Mar. 15, 2002).

- In January 2001 we reported that despite the preponderance of satisfactory physical inspection scores for multifamily and public housing properties, inspectors cited a substantial number of properties for life threatening health and safety problems. Our analysis of HUD property data indicates that this situation has not significantly changed in the last 2 years. For fiscal year 2002, about 91 percent of multifamily and public housing properties received satisfactory inspection scores, but about half of these properties also had life threatening health and safety problems at the time of their inspection.<sup>32</sup> According to HUD's analysis of the data by unit level, about 24 percent of multifamily units and 20 percent of public housing units had life threatening health and safety problems.
- In May 2002, HUD's Inspector General reported that public housing authorities were either not correcting, or not correcting in a timely manner, life threatening health and safety violations identified during REAC's physical inspections.<sup>33</sup> Specifically, only 16 percent of the deficiencies the Inspector General selected for review had been corrected within the required time frame. The Inspector General also noted that the monitoring methods local HUD offices used to ensure that authorities corrected identified deficiencies were inconsistent and ineffective. Because the deficiencies were not being corrected, many public housing residents were forced to live in unsafe or unsanitary conditions—or both—for extended periods of time. According to HUD, the Office of Public and Indian Housing has issued guidance for fiscal year 2003 that requires field staff to conduct spot check reviews of repairs when they make site visits to public housing agencies.
- In our March 2002 report,<sup>34</sup> we found that HUD had designated 21 of about 3,200 public housing agencies as troubled as of December 2001. However, our analysis showed that other public housing agencies could have received the same designation if PHAS, which is HUD's new system for assessing and managing the performance of housing agencies, had

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<sup>32</sup>Inspection data for fiscal year 2002 is for the period through September 2002 for public housing and through June 2002 for multifamily housing.

<sup>33</sup>U.S. Department of Housing and Urban Development, Office of Inspector General, *Multi-location Review of HUD's Utilization of the Public Housing Assessment System*, 2002-PH-0001 (Washington, D.C.: May 2002).

<sup>34</sup>[GAO-02-282](#).

been fully implemented in fiscal year 2001. As many as 90 agencies could have been designated as troubled overall, and another 442 designated as troubled in at least one area, in part because of the poor quality of their housing units. As of September 2002, although HUD finalized the system, HUD had still not fully implemented PHAS to use the results in designating housing agencies as troubled. Until the system is fully implemented, we cannot assess how effective PHAS will be in identifying and providing for the correction of long-standing problems at public housing agencies.

As part of a series of organizational realignments, HUD revised REAC's responsibilities to shift some programs to the Office of Housing and change the organizational structure so that REAC reports through the Office of Public and Indian Housing. According to HUD officials, this realignment and reorganization was completed in October 2002, with some administrative decisions concerning the personnel actions needed to effect the realignments yet to be made. As we stated in July 2002, the creation of REAC was a positive development that yielded real results; while the Secretary has the prerogative to align the organization as he sees fit, consistent with his vision and management style, it is important that progress made to date in improving the condition and oversight of HUD's inventory not be jeopardized.<sup>35</sup> Regardless of how REAC is aligned, HUD must continue to make progress improving the physical condition of public and assisted multifamily housing properties. While it is too soon to evaluate the effect of the organizational changes, ultimately the success or failure will be viewed in that light.

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## Effectively Address Human Capital Issues

Our work, and that of HUD's Inspector General, has highlighted the importance of human capital management in correcting weaknesses in rental assistance programs. Examples of human capital issues are as follows:

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<sup>35</sup>U.S. General Accounting Office, *HUD Management: HUD's High-Risk Program Areas and Management Challenges*, [GAO-02-869T](#) (Washington D.C.: July 24, 2002).

- Our work and that of the HUD Inspector General identified mismatches between workload and staffing in HUD's public housing program. We reported in July 2002 that HUD's public housing directors believed they did not have adequate field office staff to provide effective assistance to the public housing agencies for which they were responsible.<sup>36</sup> At the same time, HUD's Inspector General found that staff at HUD's specialized centers, established to deal with troubled public housing agencies, were often underemployed. Specifically, the two Troubled Agency Recovery Centers (TARC) had expected to assist some 575 troubled agencies but because PHAS implementation was delayed, the expected workload had not materialized. Meanwhile, HUD's field offices were using their limited resources to assist the agencies that might have been designated as troubled if PHAS were implemented. According to HUD, it now assigns staff from the TARCs as needed to the field offices to help with the workload. HUD told us it was considering making the field offices formally responsible for troubled agencies and permanently moving all TARC staff to the field offices, essentially disbanding the recovery centers. To address this issue, in December 2002, HUD officials stated that a restructuring plan has been developed to consolidate the Office of Troubled Agency Recovery into the Field Operations to create a new Office of Field Operations to improve coordination with field offices and oversight of public housing agencies.
- In our July 2002 report we noted that because of their heavy workloads, the staff of some field offices could not implement processes and procedures for reviewing and monitoring underwriting of insured multifamily loans. We found that workloads in some offices often exceeded HUD's standard. To address this issue, HUD told us the department would shift the workload among field offices as needed.

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<sup>36</sup>U.S. General Accounting Office, *HUD Human Capital Management: Comprehensive Strategic Workforce Planning Needed*, [GAO-02-839](#) (Washington D.C.: July 24, 2002).

- Our reviews of contracts in HUD’s Office of Multifamily Housing and of improper payments associated with some of those contracts indicates that weaknesses exist in both monitoring and management of contracts, partly because of staffing issues.<sup>37</sup> As discussed in more detail under the acquisitions management challenge section, we found that HUD’s monitoring of its multifamily contractors was not systematic and was generally remote. Staff reported to us that the workload and wide dispersion of properties makes it difficult to conduct site visits as often as is required or as often as staff believe is necessary. Monitoring is generally conducted based on where staff are located or after a significant contractor performance problem has been identified. To help compensate for its inability to do more on-site monitoring, HUD contracted with a firm to conduct on-site inspections of multifamily properties it is responsible for managing. However, staff report they are unable to routinely follow up on identified deficiencies for the same reasons.

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## Address Department’s Crosscutting Management Challenges

Three crosscutting management challenges affect HUD’s operations and contribute to placing the single-family mortgage insurance and rental housing assistance program areas at high risk. Two of these challenges—improving programmatic and financial management information systems and human capital management—are long-standing issues that both we and HUD’s Inspector General have reported for several years. Because of HUD’s heavy and ever-increasing reliance on third parties operating under contractual arrangements and weaknesses in HUD’s acquisitions management, we believe acquisitions management is also a management challenge that the department needs to address.

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## Improve Programmatic and Financial Management Information Systems

Both we and HUD’s Inspector General have reported on weaknesses related to HUD’s programmatic and financial management information systems for many years. For example, in audits of HUD’s consolidated financial statements, the Inspector General has identified numerous material internal control weaknesses. Most of these weaknesses are long-

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<sup>37</sup>U.S. General Accounting Office, *HUD Management: Actions Needed to Improve Acquisition Management*, [GAO-03-157](#) (Washington, D.C.: Nov. 15, 2002); and U.S. General Accounting Office, *Financial Management: Strategies to Address Improper Payments at HUD, Education, and Other Federal Agencies*, [GAO-03-167T](#) (Washington, D.C.: Oct. 3, 2002).

standing and are the result of inadequate financial systems that do not meet the department's needs. In these audits for the past several years, HUD's Inspector General has stated that the most critical need faced by HUD in improving its financial management control environment is to complete the development of adequate systems. The weaknesses in HUD's systems impede its financial management, program effectiveness, and oversight functions. Accordingly, developing a plan to substantially improve programmatic and financial management information systems to meet the department's needs and comply with federal financial system requirements is crucial to HUD's effort to successfully address its high-risk program areas.

Since January 2001, HUD has continued its efforts to improve its programmatic and financial management systems and management of its IT. According to HUD, its focus has been on stabilizing and enhancing its existing financial management systems structure, and the department has deferred action on planning the next generation of core financial management systems. HUD is planning to complete a feasibility study to determine the most cost-effective solution to address its long-standing financial management systems issues, although no date has yet been set for completion of the study. Specific improvements to HUD's financial and programmatic information systems include the following:

- As of October 2002, FHA deployed a new general ledger module and improved interfaces with its legacy systems. This deployment makes progress toward responding to one of FHA's material internal control weaknesses. These improvements are expected to eliminate much of the manual processing of transactions previously required to generate consolidated financial statement data for HUD. The new module is consistent with federal government accounting principles and provides for automated monthly interfaces with HUD's current general ledger.
- FHA is also taking steps to improve funds control, which the Inspector General also reported as a material weakness, by providing managers with additional training, updating outdated funds control policies, and enhancing existing funds control systems. FHA intends to implement a new subsidiary ledger system that, among other things, is intended to redesign the funds control process. The first phase of implementation occurred in October 2002, with full implementation targeted for fiscal year 2006. The new process is intended to improve FHA's monitoring and control of budgetary resources and reduce manual analyses and reconciliations.

- HUD established an investment management program to select, control, and evaluate IT investments. Since fiscal year 2000, HUD has routinely assessed and scored proposed projects against departmentwide project selection criteria and used the process to select IT projects. Also, HUD has been conducting quarterly in-process reviews of all IT projects to determine whether the projects are achieving the approved objectives, milestones, and budget targets. HUD has ordered corrections to projects that fall short of the targets, reallocated project funding, and stopped projects that were not making sufficient progress or were not being properly managed based on risk. In January 2002, HUD completed a pilot postimplementation review of a project and has scheduled reviews for projects starting in October 2002. According to the Director of IT Investment Management, HUD intends to accelerate the number of postimplementation reviews until they are conducted routinely on all implemented projects.

In addition, HUD has undertaken several efforts—some still ongoing—to address governmentwide initiatives under the President’s Management Agenda to (1) improve financial performance, (2) expand electronic government (e-government), and (3) improve budget and performance integration. For example, to improve financial management, the department is seeking to further reduce the number of noncompliant systems from 17 to 14 in fiscal year 2003, with full compliance with federal financial standards by 2006, and is developing a blueprint to reduce overpayments of rent subsidies. To help further the e-government initiative, HUD has, among other things, conducted an e-government assessment to identify current, short-term, and long-term e-government opportunities. Finally, to address the budget and performance integration initiative, the department has developed a plan to integrate budgeting, planning, and evaluation, and is working to further integrate performance and budget information in the fiscal year 2004 budget. HUD also developed an IT investment management program and a project management training program that has trained 150 IT project managers and had planned to make the training program Web-based by September 2002.

While the continuing efforts are encouraging, we remain concerned that HUD’s programmatic and financial management information systems do not today fully support its programs—including its single-family mortgage insurance and rental housing assistance programs—and do not ensure effective financial management of those programs. The following are examples of these programmatic and financial management concerns:

- As discussed in more detail earlier, to oversee lenders, including identifying high-risk lenders, and investigate potential fraud cases in HUD's single-family mortgage insurance programs, staff at the department's homeownership centers must collect and manually compile information from multiple systems and sources. Working manually creates a greater risk of error and increases the likelihood that problems will go unnoticed.
- As we reported in July 2002,<sup>38</sup> HUD's system for tracking the status of multifamily loan applications does not reliably record and track several key steps in the accelerated approval process. As a consequence, HUD field staff must develop and maintain spreadsheets and other informal systems to monitor the status of HUD's actions.
- As we reported in November 2002,<sup>39</sup> HUD's contracting information systems do not effectively support acquisitions management. The department's centralized contracting management information system does not contain reliable data and its financial management information systems do not readily provide complete and consistent obligation and expenditure information on contracting activities. To address this issue, HUD plans to implement data verification procedures and provide data quality training to staff during fiscal year 2003.
- Finally, in September 2001, we reported that HUD's processes for acquiring software were immature and could be characterized as ad hoc, sometimes chaotic, and not repeatable across projects.<sup>40</sup> These weaknesses can lead to systems that do not meet the information needs of management and staff, do not provide support for needed programs and operations, and cost more and take longer than expected to complete. HUD agreed to strengthen its software acquisitions process and, according to the Deputy Secretary, the department has prepared a strategy and plan to improve its acquisitions of software projects.

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<sup>38</sup>U.S. General Accounting Office, *Multifamily Housing: Improvements Needed in HUD's Oversight of Lenders That Underwrite FHA-Insured Loans*, [GAO-02-680](#) (Washington, D.C.: July 19, 2002).

<sup>39</sup>[GAO-03-157](#).

<sup>40</sup>U.S. General Accounting Office, *HUD Information Systems: Immature Software Acquisition Capability Increases Project Risk*, [GAO-01-962](#) (Washington, D.C.: Sept. 14, 2001).

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Financial Management  
Deficiencies Remain

HUD and FHA financial management information systems remain major concerns. In February 2002, for the eleventh year in a row, HUD's Inspector General cited the lack of an integrated financial management system in compliance with federal financial system requirements as a material weakness in its audit of the department's financial statements. Although HUD obtained an unqualified opinion for its fiscal year 2000 consolidated financial statements, after the Inspector General issued a disclaimer on HUD's fiscal year 1999 financial statements, the department relied on extensive ad hoc analyses and manual reconciliations to develop account balances and the necessary disclosures.<sup>41</sup> HUD also received an unqualified audit opinion for fiscal year 2001, but the department again relied on extraordinary manual efforts to prepare its financial statements. This manual work was necessary because HUD's and FHA's financial management systems cannot perform these functions. While an unqualified opinion is an important milestone in financial management, the ultimate objective is to have information systems and controls in place to provide accurate, timely, and useful information to manage agencies on a day-to-day basis. HUD does not yet have systems that meet these financial management goals.

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<sup>41</sup>Due to problems experienced in converting to a new system, the Inspector General was unable to issue an opinion on HUD's fiscal year 1999 consolidated financial statements. HUD could not prepare auditable financial statements and related disclosures in time to allow the Inspector General to complete the audit within statutory time frames.

The audit report on HUD's fiscal year 2001 consolidated financial statements identified a total of five material internal control weaknesses. Three weaknesses, most of which are long-standing issues, related to HUD and two related specifically to FHA.<sup>42</sup> The Inspector General found that HUD needed to (1) complete improvements to its financial systems, (2) improve its oversight and monitoring of housing assistance determinations, and (3) ensure that rental assistance is based on correct tenant income. The audit report also identified nine additional reportable conditions,<sup>43</sup> including computer security issues.

In the audit report on HUD's consolidated financial statements, the Inspector General also reported that HUD did not substantially comply with FFMIA for fiscal year 2001. FFMIA requires agencies to put in place financial management systems that substantially comply with federal financial management systems' requirements and with applicable accounting standards and that allow transactions to be processed in accordance with the United States Standard General Ledger. The Inspector General reported noncompliance in all three areas.

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<sup>42</sup>The two FHA material weaknesses, which have contributed to our high-risk designation for HUD's single-family mortgage insurance programs, are discussed in the single-family mortgage insurance section of this report. Two of HUD's material weaknesses specifically relate to rental assistance determination and payment processes, which have contributed to our high-risk designation for HUD's rental housing assistance programs, as discussed in the rental housing assistance section of this report.

<sup>43</sup>Reportable conditions are matters coming to the attention of the auditors that, in their judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet the objectives of reliable financial reporting and compliance with applicable laws and regulations.

In its fiscal year 2001 Accountability Report, HUD specifically reported that 17 of its 57 financial management systems did not materially conform to federal requirements, an increase from the 11 reported in the fiscal year 2000 Accountability Report.<sup>44</sup> HUD noted several financial management system deficiencies, including several system interfaces that were not automated and that, therefore, required staff to do manual analyses and reprocessing and make additional entries to compile complete agencywide financial results. Further, HUD reported that its systems did not provide adequate funds control, limited the department's ability to ensure the propriety of Section 8 rental assistance payments, and did not fully support efforts to identify quickly any funds remaining on expired Section 8 contracts. Additionally, weaknesses in controls over HUD's financial management systems—both generally and for specific applications—increased the risk of unauthorized access and manipulation of applications and data on these systems.

In a separate report, HUD's Inspector General reported on deficiencies in HUD's information security. The Inspector General reported that while HUD has improved some aspects of its Information Systems Security program, significant weaknesses persist.<sup>45</sup> Specifically, delays in the implementation of corrective actions and tasks designed to strengthen the program continue to put critical data and resources at risk. As a result, progress toward strengthening the program has been hampered and the program remains immature and not fully effective in ensuring the integrity, confidentiality, and authenticity of information and information systems supporting departmental operations and assets. In response to this report, the Deputy Secretary said HUD currently has four contract initiatives under way that will have a direct bearing on the Inspector General's audit findings. These contract initiatives cover incident response service; policy development; training for all HUD staff and collocated contractor staff; and security plans, reviews and threat assessments for 17 mission critical systems.

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<sup>44</sup>HUD stated that the number of noncompliant FHA systems increased largely as a result of applying revised criteria from the Office of Management and Budget.

<sup>45</sup>Office of Inspector General, Department of Housing and Urban Development, *Annual Evaluation of HUD's Information Security Program*, 2003-DP-0801 (Washington, D.C.: Oct. 30, 2002).

In the audit report on FHA's fiscal year 2001 financial statements, the independent auditors reported two material weaknesses that specifically affect FHA's financial management. The auditors concluded that FHA needs to (1) enhance its information technology systems to more effectively support FHA's business processes and (2) improve its controls over budget execution and funds control. The independent auditors reported that FHA's inability to significantly update its system environment adversely affects internal controls related to accounting and reporting financial activities. The auditors also said that FHA does not have financial systems that are capable of fully monitoring and controlling budgetary resources. FHA reported that weaknesses in its budget execution and funds control areas contributed to an Anti-Deficiency Act violation in fiscal year 2000 in the amount of \$7.3 million, which required a supplemental appropriation from Congress.<sup>46</sup> The weaknesses in its financial management systems also increased the risk of noncompliance with applicable federal accounting standards.<sup>47</sup> According to HUD, the implementation of the new FHA General Ledger in October 2002 put in place the core system for beginning to address funds control issues. In addition, as part of a departmentwide effort, FHA is in the process of updating its funds control plans.

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<sup>46</sup>The Antideficiency Act (31 U.S.C. 1341) provides that unless otherwise authorized by law, no officer or employee of the United States may obligate or expend funds in excess of amounts appropriated by law or before such funds are appropriated.

<sup>47</sup>Statement of Federal Financial Accounting Standards Number 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."

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## Address Critical Human Capital Issues

Like other federal agencies, HUD has historically not strategically managed its human capital. In our January 2001 report, we noted that the reorganizations that took place as part of HUD's 2020 Management Reform Plan had resulted in imbalances in workload at several specialty centers and in some of the field offices. Managers we surveyed reported that training and staff skills had generally improved, but also thought that training should be increased. HUD's human capital challenges can be seen as part of a broader pattern of human capital shortcomings that have eroded mission capabilities across the federal government. (See our high-risk series update for a discussion of human capital as a governmentwide high-risk area.<sup>48</sup>)

HUD's most significant workforce planning to date has been its Resource Estimation and Allocation Process (REAP) study, which was completed in December 2001. On an office-by-office basis, the REAP study looked at the number of staff on board and assigned a staff ceiling—the number of staff needed for that office based on the work the office was currently performing—and calculated the resources required to do that work. In support and validation of REAP, HUD has implemented a workload measurement system that captures the type of work HUD employees and contractors perform and the time required to do it. While the results of the REAP study suggested an increase in the number of full-time equivalent positions—from 9,531 to 10,600—HUD did not request the higher number of staff in its fiscal year 2003 budget submission. According to a HUD official, the workload measurement system was not fully implemented when the budget went to the Congress and HUD was still redeploying existing staff. However, HUD told us that the redeployment has been completed and that the Assistant Secretary for Administration and Director of Personnel are now focused on hiring and orientation strategies to support an increase in staffing levels.

HUD has also analyzed data on staff retirement eligibility by office, position, and grade level. Among its findings is that, by August 2003, half of its workforce in General Schedule Grades 9-15 will be eligible to retire. According to HUD officials, in light of the pending retirements and because the department has done little outside hiring in more than 10 years, HUD needs to undertake a large-scale recruiting and hiring effort. HUD is

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<sup>48</sup>U.S. General Accounting Office, *High Risk Series: An Update*, [GAO-03-119](#) (Washington, D.C.: January 2003).

considering the potential retirements in its hiring strategies by including an emphasis on recruiting midcareer employees. HUD expects to complete a 5-year strategic plan in early 2003.

Since 2001, HUD has realigned some of its organizational activities and centers, reassigning staff to address staffing needs in program areas. For example, the community builder position, which was created to help local communities more effectively access HUD programs, was abolished and these individuals were transferred to other positions in program offices where HUD identified a more critical need. Of the approximately 300 positions redeployed, HUD reports that the staff were reassigned from the Office of Field Policy Management to other programs in field offices as shown in Table 3.

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**Table 3: HUD Staff Redeployed from Field Policy Management to Program Offices**

<b>Number of staff</b>	<b>Program office</b>
97	Office of Housing (74 to multifamily, 23 to single family)
92	Office of Public and Indian Housing
73	Office of Community Planning and Development
34	Office of Fair Housing and Equal Opportunity

Source: HUD.

HUD has also undertaken additional human capital planning activities to respond to the President's Management Agenda. In addition to redeploying staff to mission-critical positions, HUD has taken steps to

- reduce management layers and the ratio of supervisors to staff,
- develop an intern program (The department told us it met the goal of hiring and training at least 200 interns in the summer of 2002.),
- identify core competencies for major offices, and
- develop training opportunities and career paths to support staff development.

HUD has also convened a Human Capital Steering Committee to organize these initiatives.

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While these efforts are important first steps toward strategic human capital management, additional workforce planning steps are necessary. Missing from HUD's workforce planning are elements that we believe are essential, including analyses of what the work staff should be doing now and in the future and the knowledge, skills, and abilities needed to do this work; the appropriate staff deployment across the organization; and strategies for identifying and filling workforce gaps. A comprehensive workforce plan would allow HUD to better manage its current staff and plan for the department's future needs. In July 2002, we recommended that HUD develop a comprehensive strategic workforce plan that is aligned with the department's strategic plan and contains the elements outlined above. Lacking these elements, HUD is not as prepared as it could be to address its human capital challenges and to recruit and hire the staff needed to pursue its mission. HUD officials report that they are in the process of developing a statement of work to hire a contractor to complete a comprehensive workforce planning study.

In December 2002,<sup>49</sup> HUD's Inspector General also reported that although the department had made significant progress in implementing its resource estimation process, it lacked a comprehensive strategic plan that defines how the data from the studies will be used to justify and allocate its human capital resources among its operating components. The Inspector General observed that this may limit HUD's effectiveness in helping manage its human capital resources.

HUD's lack of a comprehensive workforce plan has affected the agency's performance in several program areas, including the following:

- In the single-family homeownership centers, staffing imbalances have hampered center operations, and deployment of staff is not consistent with the centers' workload. As a result, all four centers have had difficulty supervising and making effective use of the staff in field offices. Further, HUD has transferred two key functions—overseeing appraisers and assessing lenders—from the REAC to the Office of Single Family Housing. While the Office of Single Family Housing has received authorization for the positions it needs to carry out these functions, it has not filled all of the positions. According to officials from the office, the shortages have increased the existing staff's workloads.
- We also reported that training at the homeownership centers was inadequate, as HUD had not developed a standard training curriculum for center staff. We recommended that HUD assess the centers' workforce, develop a plan for locating center staff where they are needed, and deploy the staff effectively; develop a training curriculum for center staff; and develop a strategic human capital management plan for the homeownership centers that considers all areas of human capital management. HUD has made some progress in these areas, but the recommendations remain open.
- In July 2002,<sup>50</sup> we reported that some managers and staff in the Office of Public and Indian Housing found that the lack of workforce planning made it difficult to accomplish several mission-related activities and

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<sup>49</sup>U.S. Department of Housing and Urban Development, Office of Inspector General, *Assessment of HUD's Progress in Implementing the Resource Estimation and Allocation Process (REAP) and Total Estimation and Allocation Mechanism (TEAM) Components of its Human Resource Management System*, 2003-PH-0801 (Philadelphia, PA: Dec. 3, 2002)

<sup>50</sup>[GAO-02-839](#).

provide service to customers. The workforce planning issue of greatest concern to office managers and staff was insufficient staff. Directors of several public housing and Native American program field offices—which were staffed at less than 90 percent of the recommended staffing level at the time—said that they lacked the staff to provide the level of oversight and technical assistance that the housing agencies need. Although the field office directors we interviewed said that they were meeting the goal of using risk assessment techniques to focus oversight efforts, they lacked a standard method of assigning levels of oversight based on risk. According to field office directors, the staffing shortages were exacerbated by skills gaps and uncertainties about what work should be done and the best mix of staff knowledge, skills, and abilities to do it. According to HUD, the Office of Public and Indian Housing will continue to review workload and consult field staff on ways to improve program implementation and monitoring efforts. Additionally, HUD officials told us they are developing training to address a perceived skills gap, but noted that financial support for travel funds and supplies is necessary to fully implement the training program.

- HUD’s Inspector General also found that some areas were plagued by human capital difficulties. An August 2001 review of HUD’s Troubled Agency Recovery Center in Memphis revealed that the center was unable to fully and effectively utilize its staff.<sup>51</sup> In addition, in April 2002, the Inspector General reported that staff resources at HUD’s Seattle Technical Assessment Center were underutilized, that opportunities for employee misconduct existed, and similar problems could exist at the Chicago Center.<sup>52</sup> HUD agreed with these findings and has taken steps to address the Inspector General’s recommendations, including increasing the number of housing agencies assigned to the Memphis Center and planning to reassign much of the Seattle and Chicago staff to other positions in the Office of Public and Indian Housing or in REAC where they will be more effectively utilized.

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<sup>51</sup>U.S. Department of Housing and Urban Development, Office of Inspector General, Troubled Agency Recovery Center, Memphis, Tennessee, 2001-AT-0002 (Atlanta, GA: Aug. 17, 2001).

<sup>52</sup>U.S. Department of Housing and Urban Development, Office of Inspector General, Audit Memorandum on the Staffing Resources of the Real Estate Assessment Center’s Tenant Assessment Subsystem, Seattle Technical Assistance Center, 2002-SE-0801 (Seattle, WA: Apr. 23, 2002).

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In November 2002,<sup>53</sup> we reported that HUD does not strategically manage its acquisitions workforce to ensure that staff responsible for managing and oversight of its contracts have the appropriate workload, skills, and training that would enable them to effectively perform their jobs, as discussed in more detail in the following section.

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### Actions Needed to Improve Acquisitions Management

As HUD downsized its staff in the 1990s—from about 13,500 people to around 9,000 today—the scope of its mission and the needs of the people it serves did not decrease.<sup>54</sup> As a result, HUD came to rely more and more on private contractors to help carry out its mission. HUD’s contracting commitments between fiscal years 1997 and 2000 increased by about 62 percent—from about \$786 million to almost \$1.3 billion (in 2001 constant dollars)—and HUD expects this trend to continue. HUD’s contractors are an integral part of program delivery and other vital functions, and HUD has estimated that the size of its contractor workforce may nearly equal its own. Contractors are responsible for key portions of HUD’s single-family insurance program and its rental housing assistance programs—areas that we consider high risk. For example, contractors are responsible for managing and disposing of HUD’s inventory of single-family and multifamily properties—properties that have a combined value of about \$3 billion (as of September 30, 2001).

In October 2001,<sup>55</sup> we concluded that acquisitions management was one of the significant challenges facing HUD in its attempts to sustain the progress of its management reform and move toward its goal of becoming a high-performing organization. Most recently, in November of 2002, we concluded that weaknesses in acquisitions management limited HUD’s ability to prevent, identify, and hold its contractors accountable.<sup>56</sup>

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<sup>53</sup>GAO-03-157.

<sup>54</sup>These staff levels include only staff assigned to HUD’s program offices and do not include full-time equivalents assigned to HUD’s Office of Inspector General, working capital fund, and the Office of Federal Housing Enterprise Oversight.

<sup>55</sup>U.S. General Accounting Office, *HUD Management: Progress Made on Management Reforms, but Challenges Remain*. GAO-02-45 (Washington, D.C.: Oct. 31, 2001).

<sup>56</sup>GAO-03-157.

In response to criticisms and as part of its recent management reform initiatives, HUD has taken actions to improve its acquisitions management. These actions include the following:

- hiring a Chief Procurement Officer,
- creating full-time technical positions at the program level with responsibility for monitoring contractors' performance,
- instituting a certification training program and supplementary on-line training on the federal contracting process as implemented at HUD,
- establishing and upgrading an agencywide contracting management information system to help consolidate contracting data and integrate it with HUD's financial systems, and
- creating a Contract Management Review Board to improve procurement planning and contract administration.

While HUD has initiated these actions, our work shows that the agency still faces significant challenges in acquisitions management. Taken together, these weaknesses limit HUD's ability to readily prevent, identify, and address contractor performance problems. As a result, HUD cannot yet ensure that it fulfills its mission and maintains the financial integrity of its programs.

The department and, in particular, its multifamily housing program, does not employ certain processes and practices that could facilitate effective monitoring and ensure contractors are held accountable.<sup>57</sup> HUD's monitoring of its contractors is not systematic and is largely remote. Specifically, HUD's monitoring does not consistently include the use of contract monitoring plans, risk-based strategies, or the tracking of contractor performance—which would be helpful in the administration of such plans and strategies.<sup>58</sup> According to a GAO survey, only 23 percent of HUD's government technical representatives who are responsible for contract oversight use a contract administration plan, which the Office of Federal Procurement Policy describes as essential to good contract administration. Instead, HUD's monitoring techniques consist mainly of reviews of progress reports and invoices, phone calls, and E-mails. When on-site visits are conducted, they do not occur as often as HUD guidance specifies, and HUD staff reported their workload and scarce travel resources limit their ability to follow up on identified problems.<sup>59</sup> Without a systematic approach to oversight and adequate on-site monitoring, the department's ability to identify and correct contractor performance problems and hold contractors accountable is reduced. The resulting vulnerability limits HUD's ability to assure that it is receiving the services for which it pays.

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<sup>57</sup>We have defined monitoring as an internal control function that is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

<sup>58</sup>For example, the Office of Federal Procurement Policy's *Guide to Best Practices for Contract Administration* recommends the use of a contract administration plan for good contract administration. According to the *Guide*, this plan should specify the performance outputs and describe the methodology used to conduct inspections of those outputs. Further, *HUD's Acquisition Regulation and Procurement Policies and Procedures Handbook* specify various monitoring tools that HUD staff may use to monitor contractor performance, such as a quality assurance plan, a contractor's work plan and schedule of performance, or progress reports.

<sup>59</sup>A HUD handbook indicates that quarterly inspections are to occur, but the specific sections in the handbook that are to discuss those inspections have not yet been developed.

Our review of HUD's files and disbursements indicates that its oversight processes have not identified instances in which contractors were not performing as expected. For example, HUD's files indicated that problems often surfaced either incidentally or were discovered by people outside HUD. Problems are not identified through routine monitoring performed by the program staff responsible for a particular function. For example, a contracting officer identified situations where a contractor was purchasing items for properties after HUD had already sold them. Also, our review of disbursements by one of HUD's property disposition contractors identified cases in which the contractor bypassed HUD controls by (1) alleging that construction renovations were emergencies, thus not requiring multiple bids, and (2) splitting renovations into multiple projects to stay below the \$50,000 threshold that requires HUD approval.<sup>60</sup> In one of the cases, HUD paid \$227,500 to have 15,000 square feet of concrete replaced; however, we determined that only about one-third of the work HUD paid for was actually performed.<sup>61</sup> HUD's Inspector General and GAO's Office of Special Investigations are investigating these cases.

In addition, HUD has not taken steps to ensure that individuals responsible for managing and monitoring contracts are given appropriate workloads or that staff have acquired the skills and training needed to effectively perform their jobs. While a recent resource allocation study characterized HUD's Office of Chief Procurement Officer as an organization "in crisis," HUD has not yet addressed the workload disparities raised in that study. Further, while HUD has undertaken a workforce planning effort for the entire department, HUD has not assessed the skills and capabilities of its acquisitions workforce.<sup>62</sup> In addition, according to HUD's records, over half of the staff that is directly responsible for monitoring contractor performance has not received the required training. Managers in HUD's procurement office were not aware that staff were serving in that capacity without the required training.

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<sup>60</sup>U.S. General Accounting Office, *Financial Management: Strategies to Address Improper Payments at HUD, Education and Other Federal Agencies*, [GAO-03-167T](#) (Washington, D.C.: Oct. 3, 2002).

<sup>61</sup>[GAO-03-157](#).

<sup>62</sup>In July 2002, we reported that HUD has undertaken some workforce planning and has determined how many staff it needs to meet its current workload, but it does not have a comprehensive strategic workforce plan to guide its recruiting, hiring, and other key human capital efforts. [GAO-02-839](#).

Finally, HUD's programmatic and financial management information systems do not readily provide accurate and consistent data to support its acquisitions workforce in their efforts to manage and monitor contracts. For example, the department's centralized contracting management information system does not contain reliable data on the number of active contracts, the expected cost of the contracts, or the types of goods and services acquired. In addition, HUD's financial management information systems do not readily provide complete and consistent obligation and expenditure information for HUD's overall contracting activities or for individual contracts. To compensate for a lack of information, HUD staff overseeing contracts have developed informal or "cuff" systems—personal spreadsheets to fulfill their job responsibilities. However, these informal systems are not subject to HUD's policies, procedures, or internal controls to ensure that the information maintained in them—and used by HUD's acquisitions workforce—is accurate. In addition, the programmatic and financial management information systems do not provide HUD managers with accurate and timely information needed to oversee the department's contracting activities, make informed decisions about the use of HUD's resources, and ensure accountability in the department's programs.

While some of these deficiencies are long-standing and will likely require years to resolve, HUD can take immediate steps to address certain acquisitions management deficiencies. For example, in our November 2002 report on HUD's acquisitions management, we recommended that HUD implement a systematic approach to monitoring contracts, address planning and training requirements for its acquisitions workforce, and take steps to improve the accuracy and usefulness of its centralized contracting information system. HUD generally agreed with these recommendations and has initiated steps to address these concerns including emphasizing the importance of monitoring plans in training, increasing oversight of procurements done by multifamily property management contractors, and increasing the staff resources devoted to contract award and administration.

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# GAO Contacts

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<b>Subject(s) covered in this report</b>	<b>Contact person</b>
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*HUD Management: HUD's High-Risk Program Areas and Management Challenges.* [GAO-02-869T](#). Washington, D.C.: July 24, 2002.

*Federal Housing Assistance: Comparing the Characteristics and Costs of Housing Programs.* [GAO-02-76](#). Washington, D.C.: January 31, 2002.

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## Reduce Risk of Losses in HUD's Single-Family Mortgage Insurance Program

*Mortgage Financing: Actuarial Soundness of the Federal Housing Administration's Mutual Mortgage Insurance Fund.* [GAO-02-671T](#). Washington, D.C.: April 24, 2002.

*Single-Family Housing: Opportunities to Improve Federal Foreclosure and Property Sale Processes.* [GAO-02-305](#). Washington, D.C.: April 17, 2002.

*Single-Family Housing: Current Information Systems Do Not Fully Support the Business Processes at HUD's Homeownership Centers.* [GAO-02-44](#). Washington, D.C.: October 24, 2001.

*Homeownership: Problems Persist With HUD's 203(k) Home Rehabilitation Mortgage Insurance Program.* [GAO-01-1124T](#). Washington, D.C.: September 10, 2001.

*Single-Family Housing: Better Strategic Human Capital Management Needed at HUD's Homeownership Centers.* [GAO-01-590](#). Washington, D.C.: July 26, 2001.

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*Mortgage Financing: Actuarial Soundness of the Federal Housing Administration's Mutual Mortgage Insurance Fund.* [GAO-01-527T](#). Washington, D.C.: March 20, 2001.

*Mortgage Financing: FHA's Fund Has Grown, but Options for Drawing on the Fund Have Uncertain Outcomes.* [GAO-01-460](#). Washington, D.C.: February 28, 2001.

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**Increase Efficiency and Effectiveness of Rental Housing Assistance Programs**

*Multifamily Housing: Improvements Needed in HUD's Oversight of Lenders That Underwrite FHA-Insured Loans.* [GAO-02-680](#). Washington, D.C.: July 19, 2002.

*Public Housing: HUD and Public Housing Agencies' Experiences with Fiscal Year 2000 Plan Requirements.* [GAO-02-572](#). Washington, D.C.: May 31, 2002.

*Public Housing: New Assessment System Holds Potential for Evaluating Performance.* [GAO-02-282](#). Washington, D.C.: March 15, 2002.

*Homelessness: Improving Program Coordination and Client Access to Programs.* [GAO-02-485T](#). Washington, D.C.: March 6, 2002.

*Multifamily Housing Finance: Funding FHA's Subsidized Credit Programs.* [GAO-02-323R](#). Washington, D.C.: February 1, 2002.

*Multifamily Housing: Issues Related to Mark-to-Market Program Reauthorization.* [GAO-01-800](#). Washington, D.C.: July 11, 2001.

*HUD Multifamily Housing: Improved Follow-up Needed to Ensure That Physical Problems Are Corrected.* [GAO-01-668](#). Washington, D.C.: June 21, 2001.

*Multifamily Housing: Issues Related to Mark-to-Market Program Reauthorization.* [GAO-01-871T](#). Washington, D.C.: June 19, 2001.

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Improve Programmatic and  
Financial Management  
Information Systems,  
Human Capital, and  
Acquisition Management

*HUD Management: Actions Needed to Improve Acquisition Management.* [GAO-03-157](#). Washington, D.C.: November 15, 2002.

*Financial Management: Strategies to Address Improper Payments at HUD, Education, and Other Federal Agencies.* [GAO-03-167T](#). Washington, D.C.: October 3, 2002.

*HUD Human Capital Management: Comprehensive Strategic Workforce Planning Needed.* [GAO-02-839](#). Washington, D.C.: July 24, 2002.

*HUD Information Systems: Immature Software Acquisition Capability Increases Project Risks.* [GAO-01-962](#). Washington, D.C.: September 14, 2001.

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# Performance and Accountability and High-Risk Series

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*Major Management Challenges and Program Risks: A Governmentwide Perspective.* [GAO-03-95](#).

*Major Management Challenges and Program Risks: Department of Agriculture.* [GAO-03-96](#).

*Major Management Challenges and Program Risks: Department of Commerce.* [GAO-03-97](#).

*Major Management Challenges and Program Risks: Department of Defense.* [GAO-03-98](#).

*Major Management Challenges and Program Risks: Department of Education.* [GAO-03-99](#).

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*Major Management Challenges and Program Risks: Department of Health and Human Services.* [GAO-03-101](#).

*Major Management Challenges and Program Risks: Department of Homeland Security.* [GAO-03-102](#).

*Major Management Challenges and Program Risks: Department of Housing and Urban Development.* [GAO-03-103](#).

*Major Management Challenges and Program Risks: Department of the Interior.* [GAO-03-104](#).

*Major Management Challenges and Program Risks: Department of Justice.* [GAO-03-105](#).

*Major Management Challenges and Program Risks: Department of Labor.* [GAO-03-106](#).

*Major Management Challenges and Program Risks: Department of State.* [GAO-03-107](#).

*Major Management Challenges and Program Risks: Department of Transportation.* [GAO-03-108](#).

*Major Management Challenges and Program Risks: Department of the Treasury.* [GAO-03-109](#).

*Major Management Challenges and Program Risks: Department of Veterans Affairs.* [GAO-03-110](#).

*Major Management Challenges and Program Risks: U.S. Agency for International Development.* [GAO-03-111](#).

*Major Management Challenges and Program Risks: Environmental Protection Agency.* [GAO-03-112](#).

*Major Management Challenges and Program Risks: Federal Emergency Management Agency.* [GAO-03-113](#).

*Major Management Challenges and Program Risks: National Aeronautics and Space Administration.* [GAO-03-114](#).

*Major Management Challenges and Program Risks: Office of Personnel Management.* [GAO-03-115](#).

*Major Management Challenges and Program Risks: Small Business Administration.* [GAO-03-116](#).

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